**SURREY BOARD OF TRADE SAYS PROPOSED FEDERAL TAX REFORM WILL IMPACT CITY-BUILDING IN SURREY**

The Surrey Board of Trade sends a strong signal to the Government of Canada on the last day of consultation for proposed federal tax changes. The tax changes, if implemented, will impede the ability for small businesses to thrive as economic drivers for city building — this message could not be more relevant than today, the first day of Small Business Month.

"Surrey is on the pathway to becoming BC's largest city. The consequences of these proposed federal tax changes to small and medium sized businesses will be detrimental to business for sustained growth and investment," said Anita Huberman, CEO Surrey Board of Trade.

The Surrey Board of Trade has been undergoing continued engagement with members through surveys and in-person consultations from July to September. The overwhelming response from a very diverse industry membership cluster is opposed to the proposed tax changes.

Surrey is undergoing rapid development. Residential, commercial, industrial, and institutional development has accompanied significant population and employment growth. Surrey's business base is small and medium sized businesses that would feel the pain of increased taxes. As a result, a negative ripple effect into investment in Surrey's employment potential plus the inability of entrepreneurs to re-invest into their own business will be caused.

**THE PROBLEM:**
The proposals address a symptom, not the cause of the growth of small businesses owners' use of legitimate means to reduce their tax bills.

The government has focused on eliminating measures in an effort to level the playing field between incorporated small businesses on the one hand, and unincorporated businesses and salaried employees on the other. The comparison between the two entities is not reasonable.

With these changes small business owners will think twice about working extra hard or taking on additional risk and innovation to invest, especially in the advent of the government taking more than half of the monetary rewards.

The Surrey Board of Trade also says that the government's introduction of these proposals during the summer months and in September was problematic, allowing only a month of the Fall for consultation.

Business owners are extremely concerned that the tax changes will:
a) Unfairly prevent them from building up retirement savings;
b) Lead to lower savings within their businesses, eroding sustainability and future investment for business growth;
c) Make it more difficult to pass down ownership of family-run businesses to the next generation;
d) Result in more intrusive, costly audits by the CRA; and
e) Have negative consequences for business growth and job creation.

The reality:
a) Comparing entrepreneurs and small business owners to salaried employees is unreasonable;
b) Owners are at risk every day for personal and business capital assets through banking and bonding indemnification;
c) Owners work far more than an average employee with no overtime payment;
d) Owners are not able to collect employment insurance if the business closed;
e) Owners do not have a pension; and
f) Monies invested through the company are a source of pension for the owner.

**THE SOLUTION:**
The Surrey Board of Trade suggests that tax reform is needed, but should be an agenda item for the federal government's second mandate. The reform should be comprehensive enough to deal with the fundamental issue of punitive marginal tax rates on high-income earners. One approach could be to explore modifications to the small business tax rate and dividend rules, and provide incentives for small business owners to invest in their businesses. Measures such as these would simplify the tax system rather than make it more complicated as the current proposals do. Further, they would

preserve the incentives for small business owners to work hard and take the risks needed to grow their businesses and the economy.

Most importantly, a comprehensive reform would give the government the scope to design a balanced package that addressed some of everyone's concerns rather than pitting one group against another. It would give the government time to build consensus and deliver the reforms in a period of budget balance when the pressure to maximize revenue is reduced.

Canada's government needs to know that businesses in Surrey are concerned, to the point of closing their businesses if these tax reforms are implemented. The proposed changes discourage small business owners from investing in shops, farms, bakeries, garages, construction operations and clinics. They impose an unfair burden on hard-working Canadians, taxing them not once, but twice on investment income — to almost 73 cents on the dollar.

"Certainly an independent third party panel or Royal Commission needs to review Canada's tax system so that businesses, organizations and tax experts could comment on tax reforms over an extended period of time, before any changes are implemented."

**IN SUMMARY:**
Canada's government launched a consultation during the Summer to discuss the following proposed changes to tax legislation:

1. **Income sprinkling:**
   *What is it:* Taking advantage of lower tax brackets of family members; typically implemented through use of a family trust or dividend sprinkling shares; most common use is funding post-secondary education costs.

   *The change:* Extends tax to adult children and spouses; any income earned from a related private corporation by a non-active family member will be taxed at the top marginal rate; reasonability test to be applied by Canada Revenue Agency ("CRA").

   The government expects to raise $250 million by applying a higher tax rate on "unreasonable" compensation of family members. This would require the Canada Revenue Agency to tax over $1 billion of salaries/dividends and audit hundreds of thousands of businesses. In addition, many business owners receive their first capital from friends and family. Tough new "reasonableness" tests could trigger a much higher tax rate on dividends paid to family or "connected" parties if the labour, the capital contribution or the rate of return is not deemed "reasonable." For example, if a spouse is paid $70K, but CRA assesses the value of his/her labour at $40K, how should a business owner prove the value of the contribution? Why can investors earn generous returns from public companies, but private companies require a reasonable labour or capital contribution?

2. **Lifetime capital gains exemption:**
   *What is it:* First approximate $835,000 of capital gains on the sale of qualifying shares is tax free; standard planning involves multiplying access with family members.

   *The change:* No exemptions for minors or non-active family members; can't use a trust to claim capital gains exemption, even if beneficiary is active in business.

3. **Converting income into capital gains:**
   *What is it:* Converting retained earnings that would be paid as a dividend to a shareholder into a capital gain; funds distributed at the lower tax rates on capital gains.

   *The change:* Prevention of the distribution of corporate surplus to a non-arm's length individual shareholder resident in Canada; retroactive to July 2017; tax on death in BC can exceed 55%; this will have unintended consequences to post mortem planning arrangements and generational business transfers. Small family businesses and farms will be most impacted.

4. **Holding passive investments inside a private corporation:**
   *What is it:* Corporate tax rates are generally lower than personal tax rates, private corporations have more after-tax funds to invest to earn passive income than individuals. Currently, passive (investment) income is taxed upfront at a rate of close to 50%.

   *The change:* In the government's view, the current system leads to an unfair tax advantage, whereby a corporate owner would prefer to retain after-tax business income for passive investment purposes, within his or her corporation, rather than paying it out and investing directly as an individual. Finance is proposing to make the tax non-refundable or remove tax attributes making the effective rate up to 73%.

*The Surrey Board of Trade has over 6,000 business member contacts. The Surrey Board of Trade supports and attracts business.*